

Academic and Career Education Academy

Midland, Michigan

**Annual Financial Statements
and
Auditors' Report**

June 30, 2008

Table of Contents

<u>Section</u>	<u>Page</u>
1	Members of the Board of Directors and Administration
2	Independent Auditors' Report
3	Management's Discussion and Analysis
4	Basic Financial Statements
	Academy-wide Financial Statements
	Statement of Net Assets
	Statement of Activities
	Fund Financial Statements
	Governmental Funds
	Balance Sheet
	Reconciliation of the Balance Sheet of
	Governmental Funds to the Statement of Net Assets
	Statement of Revenues, Expenditures and Changes in Fund Balances
	Reconciliation of the Statement of Revenues, Expenditures and
	Changes in Fund Balances of Governmental Funds to the
	Statement of Activities
	Fiduciary Fund
	Statement of Fiduciary Assets and Liabilities
	Notes to Financial Statements

<u>Section</u>		<u>Page</u>
5	Required Supplemental Information	
	Budgetary Comparison Schedule – General Fund	5 – 1
6	Other Supplemental Information	
	Fiduciary Funds – Agency Fund	
	Statement of Changes in Amounts Due to Student Groups	6 – 1
7	Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	7 – 1

Academic and Career Education Academy
Members of the Board of Directors and Administration
June 30, 2008

Members of the Board of Directors and Administration

Ron Main

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Administration

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Independent Auditors' Report

To the Board of Directors and Administration
Academic and Career Education Academy
Midland, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Academic and Career Education Academy as of and for the year ended June 30, 2008, which collectively comprise the Academy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Academic and Career Education Academy's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Academic and Career Education Academy as of June 30, 2008, and the respective changes in financial position, thereof, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 19, 2008, on our consideration of the Academic and Career Education Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws and regulations. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information identified in the table of contents are not a required part of the basic financial statements but are supplemental information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Academic and Career Education Academy's basic financial statements. The accompanying other supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Yeo & Yeo, P.C.

Midland, Michigan
August 19, 2008

Academic and Career Education Academy Management's Discussion and Analysis Year Ended June 30, 2008

Academic and Career Education Academy (Academy) is a 9 - 12 public school academy in Midland County, Michigan is in its second year of operation and implementation of Governmental Accounting Standards Board Statement 34 (GASB 34) with the enclosed financial statements. The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the Academy's management's discussion and analysis of the financial results for the fiscal year ended June 30, 2008.

This is the second financial report presented in the format required by the Governmental Accounting Standards Board (GASB) in their Statement Number 34 issued in June of 2000. Required comparative information is available the first time so that the financial statements are prepared according to GASB 34 guidelines.

Overview of Financial Statements

The annual report consists of three parts: management's discussion and analysis (this section), the basic financial statements, and the required supplementary information. Generally Accepted Accounting Principles (GAAP) according to GASB 34 now requires the reporting of two types of financial statements: Academy Wide Financial Statements and Fund Financial Statements.

Academy-wide Financial Statements:

The academy-wide statements provide a perspective of the school as a whole. These statements use the full accrual basis of accounting similar to private sector companies. There are two academy-wide statements: The Statement of Net Assets and the Statement of Activities.

The Statement of Net Assets (page 4-1) combines and consolidates the governmental fund current financial resources (short-term spendable resources) with capital assets, regardless of whether they are currently available or not.

Consistent with the full accrual basis method of accounting, the Statement of Activities (page 4-2) accounts for current year revenues and expenses regardless of when cash is received or paid. The intent of this statement is to summarize and simplify the user's analysis of the costs of various district services.

When analyzed together, the two statements help the reader determine whether the Academy is financially stronger or weaker as a result of the year's activities. These statements reveal that the Academy is financially weaker at the end of the 2008 fiscal year. This is primarily the result of revenue shortfalls associated with lower than projected student enrollment in the fall of 2007.

Fund Financial Statements:

The fund financial statements are reported on a modified accrual basis. Only those assets that are "measurable" and "currently available" are reported. Liabilities that are to be paid with current financial resources are recognized. These statements focus on individual parts of the Academy rather than Academy as a whole.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the State of Michigan, the district's major instructional support activities are reported in the General Fund. Additional activities are reported in their relevant funds.

**Academic and Career Education Academy
Management's Discussion and Analysis
Year Ended June 30, 2008**

SUMMARY OF NET ASSETS:

The following summarizes Academy's net assets at fiscal year ended June 30.

	2008	2007
Assets		
Current assets	\$ 236,898	\$ 238,026
Liabilities		
Current liabilities	216,611	180,939
Long-term liabilities	60,000	60,000
Total liabilities	276,611	240,939
Net assets		
Unrestricted (deficit)	\$ (39,713)	\$ (2,913)

Analysis of Financial Position:

During the fiscal year ended June 30, 2008, Academy's net assets decreased by \$36,800. Significant factors are discussed below:

A. Net Changes in Fund Balances

Academy's governmental fund balance increased by \$10,830 this fiscal year. Revenues from General Fund operations exceeded expenditures by \$10,972 for the fiscal year ended June 30, 2008. See the section entitled Results of Operations, below, for further discussion on General Fund operations.

Results of Operations:

Revenues:

	2008	2007
Program Revenues		
Charges for services	\$ 9,631	\$ 8,923
Operating grants and contributions	278,353	82,354
General Revenues		
State aid- unrestricted	740,249	816,707
Other	593	387
Total revenues	1,028,826	908,371

Expenses:

Instruction	488,671	364,720
Supporting services	549,082	521,135
Community services	10,773	12,750
Food services	13,500	11,275
Interest on long-term debt	3,600	1,404
Total expenses	1,065,626	911,284
Change in net assets	(36,800)	(2,913)
Net assets - beginning	(2,913)	-
Net assets (deficit) - ending	\$ (39,713)	\$ (2,913)

**Academic and Career Education Academy
Management's Discussion and Analysis
Year Ended June 30, 2008**

Revenues:

I. State of Michigan Unrestricted Aid (State Foundation Grant)

The State of Michigan unrestricted aid is determined by the following:

- a. State of Michigan State Aid Act per student foundation allowance.
- b. Student Enrollment – As a Public School Academy in its second year of operation, enrollment for the year ended June 30, 2008, was based on 50% of current year's fall count and 50% of current year's winter count. In subsequent years, the enrollment will be blended at 75% of current year's fall count and 25% of prior year's winter count.

Per Student, Foundation Allowance:

Annually, the State of Michigan establishes the per student foundation allowance. The foundation allowance for the Academy was \$7,475 per pupil for fiscal year 2008. This per pupil amount stayed unchanged during the year.

Student Enrollment:

The blended student count is based on 50 percent of the Academy's February 2008 count of 112.00 and 50 percent of the September 2007 count of 86.06. This formula yields a blended count for the Academy for fiscal year 2008 of 99.03.

II. Operating Grants

The Academy received \$278,353 in operating grants during the last fiscal year.

III. Charges for Services

Food service fund revenue amounted to \$9,631 during 2007-2008. Federal portion of the food service revenue amount to \$6,056, which was received for meal reimbursements.

Expenses:

Academy-wide expenses totaled \$1,065,626 for fiscal year 2008.

General Fund Budget vs. Actual Revenues & Expenditures

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year.

Typically, the Academy amends the budget twice per fiscal year. Once in the fall to incorporate changes in grants and actual student count and also a second time usually in June, to incorporate a more accurate reflection of expense allocations.

**Academic and Career Education Academy
Management's Discussion and Analysis
Year Ended June 30, 2008**

General fund revenues

Total revenues original budget	\$	1,212,935
Total revenues final budget		1,173,956
Total revenues actual		1,066,825

Implementation grant of approximately \$150,000, which was included in the budget, but not fully expended during the fiscal year. The grant period expires September 30, 2008. It is expected that the grant will be fully expended before the end of the grant period.

Decrease in revenues vs. budget

Academy's actual general fund revenues were \$107,131 less than the final budget which represents a difference of approximately 9.13%.

Some significant factors that affected the revenues in 2008 include the second-year federal Planning and Implementation grant of approximately \$150,000, which was included in the budget, but not fully received during the fiscal year. The grant period expires September 30, 2008. It is expected that the grant will be fully received before the end of the grant period.

General Fund Expenditures

Total expenditures original budget	\$	1,131,762
Total expenditures final budget		1,171,665
Total expenditures actual		1,055,853

Decrease in expenditures vs. budget

Academy's actual general fund expenses were less than the final budget by \$112,812, a variance of 9.66%.

Some significant factors that affected the revenues in 2008 include the second-year federal Planning and

Economic Factors and Next Year's Budget

Since most of Academy's revenue is derived from the per pupil foundation allowance, student enrollment as reported in the *blended count* is one of the key factors in forecasting revenue. Once the final student count is known in late September, State law requires the district to amend the budget if actual revenues will vary significantly from those originally appropriated.

Actual revenue received depends on the State's ability to collect revenues to fund its appropriation to school districts. "Pro rata" reductions were enacted in the past. Similar reductions remain a possibility for 2008-2009 if state revenues fall short of projections. The state aid bill passed in August 2008 would provide the Academy with a per pupil allowance of \$7,579 in the 2008-2009 fiscal year.

Student enrollment is projected at 114.00 during 2008-2009 fiscal year.

Requests for Information

This financial report is designed to provide our citizens with a general overview of the Academy's finances. If you have questions about this report or would like additional information, contact Academic and Career Education Academy.

Academic and Career Education Academy
Statement of Net Assets
June 30, 2008

	<u>Governmental Activities</u>
Assets	
Cash	\$ 9,718
Due from other governmental units	<u>227,180</u>
 Total assets	 <u>236,898</u>
Liabilities	
Accounts payable	36,892
Accounts payable - ETC	179,719
Noncurrent liabilities	
Due within one year	<u>60,000</u>
 Total liabilities	 <u>276,611</u>
Net Assets	
Unrestricted (deficit)	<u>\$ (39,713)</u>

See Accompanying Notes to Financial Statements

Academic and Career Education Academy
Statement of Activities
For the Year Ended June 30, 2008

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
	<u>Expenses</u>				
Functions/Programs					
Governmental activities					
Instruction	\$ 488,671	\$ -	\$ 77,260	\$ -	\$ (411,411)
Supporting services	549,082	-	201,093	-	(347,989)
Food services	10,773	9,631	-	-	(1,142)
Community services	13,500	-	-	-	(13,500)
Interest on long-term debt	3,600	-	-	-	(3,600)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total governmental activities	<u>\$ 1,065,626</u>	<u>\$ 9,631</u>	<u>\$ 278,353</u>	<u>\$ -</u>	<u>(777,642)</u>
General revenues					
State aid - unrestricted					740,249
Other					<u>593</u>
Total general revenues					<u>740,842</u>
Change in net assets					(36,800)
Net assets (deficit) - beginning					<u>(2,913)</u>
Net assets (deficit) - ending					<u>\$ (39,713)</u>

See Accompanying Notes to Financial Statements

Academic and Career Education Academy
Governmental Funds
Balance Sheet
June 30, 2008

	General Fund	Nonmajor Governmental Fund - Food Service Fund	Total Governmental Funds
Assets			
Cash	\$ 9,212	\$ 506	\$ 9,718
Due from other governmental units	<u>227,180</u>	<u>-</u>	<u>227,180</u>
 Total assets	 <u>\$ 236,392</u>	 <u>\$ 506</u>	 <u>\$ 236,898</u>
Liabilities and Fund Balance			
Liabilities			
Accounts payable	36,892	-	36,892
Accounts payable - ETC	<u>179,719</u>	<u>-</u>	<u>179,719</u>
 Total liabilities	 <u>216,611</u>	 <u>-</u>	 <u>216,611</u>
 Fund Balance			
Other undesignated	<u>19,781</u>	<u>506</u>	<u>20,287</u>
 Total liabilities and fund balance	 <u>\$ 236,392</u>	 <u>\$ 506</u>	 <u>\$ 236,898</u>

See Accompanying Notes to Financial Statements

Academic and Career Education Academy
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets
June 30, 2008

Total fund balances for governmental funds	\$ 20,287
Total net assets for governmental activities in the statement of net assets is different because:	
Long-term liabilities applicable to governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities.	
Note payable	<u>(60,000)</u>
Net assets (deficit) of governmental activities	<u><u>\$ (39,713)</u></u>

Academic and Career Education Academy
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2008

	General Fund	Nonmajor Governmental Fund - Food Service Fund	Total Governmental Funds
Revenues			
Local sources	\$ 593	\$ 2,991	\$ 3,584
State sources	771,152	584	771,736
Federal sources	295,080	6,056	301,136
Total revenues	<u>1,066,825</u>	<u>9,631</u>	<u>1,076,456</u>
Expenditures			
Current			
Education			
Instruction	418,297	-	418,297
Supporting services	549,082	-	549,082
Food services	-	10,773	10,773
Community services	13,500	-	13,500
Capital outlay	70,374	-	70,374
Debt service			
Interest and other expenditures	3,600	-	3,600
Total expenditures	<u>1,054,853</u>	<u>10,773</u>	<u>1,065,626</u>
Excess (deficiency) of revenues over (under) expenditures	<u>11,972</u>	<u>(1,142)</u>	<u>10,830</u>
Other Financing Sources (Uses)			
Transfers in	-	1,000	1,000
Transfers out	(1,000)	-	(1,000)
Total other financing sources (uses)	<u>(1,000)</u>	<u>1,000</u>	<u>-</u>
Net change in fund balance	10,972	(142)	10,830
Fund balance - beginning	8,809	648	9,457
Fund balance - ending	<u>\$ 19,781</u>	<u>\$ 506</u>	<u>\$ 20,287</u>

See Accompanying Notes to Financial Statements

Academic and Career Education Academy
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2008

Net change in fund balances - Total governmental funds	\$ 10,830
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Total change in net assets reported for governmental activities in the statement of activities is different because:

Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.

Operating grants	<u>(47,630)</u>
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Change in net assets of governmental activities	<u><u>\$ (36,800)</u></u>
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Academic and Career Education Academy
Statement of Fiduciary Assets and Liabilities
June 30, 2008

	<u>Agency Funds</u>
Assets	
Cash	<u>\$ 7,018</u>
Liabilities	
Due to student groups	<u>\$ 7,018</u>

See Accompanying Notes to Financial Statements

Academic and Career Education Academy
Notes to Financial Statements
June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Academic and Career Education Academy (Academy) conform to accounting principles generally accepted in the United States of America as applicable to Academy districts. The following is a summary of the significant accounting policies.

Reporting Entity

Academic and Career Education Academy was granted a contract to organize and operate a public school academy under the authority of the Midland County Educational Service Agency, as granted by the State of Michigan.

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board (GASB) for determining the various governmental organizations to be included in the reporting entity. The Academic and Career Education Academy Board of Directors (Board) is the primary government that has oversight responsibility and control over all activities related to public Academy education in the Academy. The Board receives funding from local, state and federal government sources and must comply with the concomitant requirements of these funding source entities. However, the Board is not included in any other governmental "reporting entity" as defined in GASB pronouncements. The Board has separate legal standing and is fiscally independent of other governmental entities. As such, the Board has decision-making authority, the right to determine its budget, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters. The Board does not include any other component within its financial statements.

Academy-wide Financial Statements

The Academy's basic financial statements include both academy-wide (reporting for the Academy as a whole) and fund financial statements

(reporting the Academy's major funds). The academy-wide financial statements categorize all nonfiduciary activities as either governmental or business type. All of the Academy's activities are classified as governmental activities.

The statement of net assets presents governmental activities on a consolidated basis, using the economic resources measurement focus and accrual basis of accounting. This method recognizes all long-term assets and receivables as well as long-term debt and obligations. The Academy's net assets are reported in two parts (1) invested in capital assets, and (2) unrestricted net assets. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, restricted resources are applied first.

The statement of activities reports both the gross and net cost of each of the Academy's functions. The functions are also supported by general government revenues (State Aid, grants, and interest and investments earnings, etc.). The statement of activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (state sources and federal sources, interest income, etc.). The Academy does not allocate indirect costs. In creating the academy-wide financial statements, the Academy has eliminated interfund transactions.

The academy-wide focus is on the sustainability of the Academy as an entity and the change in the Academy's net assets resulting from current year activities.

Academic and Career Education Academy

Notes to Financial Statements

June 30, 2008

Fund Financial Statements

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the academy-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Academy considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Unrestricted State aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

Fiduciary fund statements also are reported using the economic resources measurement focus and the accrual basis of accounting.

The Academy reports the following major governmental fund:

General Fund – The General Fund is used to record the general operations of the Academy pertaining to education and those operations not required to be provided for in other funds.

Additionally, the Academy reports the following fund type:

Food Service Fund – The Food Service Fund is used to record operations of the Academy's food service operations

Fiduciary Funds – Fiduciary funds are used to account for assets held by the Academy in a trustee capacity or as an agent. The Agency Fund is custodial in nature (assets equal liabilities) and does not involve the measurement of results of operations. This fund is used to record the transactions of student groups for school and school-related purposes.

Assets, Liabilities and Equity

Receivables and Payables – Generally, outstanding amounts owed between funds are classified as "due from/to other funds". These amounts are caused by transferring revenues and expenses between funds to get them into the proper reporting fund. These balances are paid back as cash flow permits.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Comparative Data

Comparative data is not included in the Academy's financial statements.

Eliminations and Reclassifications

In the process of aggregating data for the statement of net assets and the statement of activities, some amounts reported as interfund activity and balances in the funds were eliminated or reclassified. Interfund receivables and payables were eliminated to minimize the

Academic and Career Education Academy

Notes to Financial Statements

June 30, 2008

“grossing up” effect on assets and liabilities within the governmental activities column.

Upcoming Accounting and Reporting Change

The Government Accounting Standards Board has issued Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits other than Pensions*. The new pronouncement provides guidance for school districts in recognizing the cost of retiree health care. The new rules will cause district-wide financial statements to recognize the cost of providing retiree healthcare coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2010.

The Government Accounting Standards Board has issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. This statement addresses how to account for pollution remediation activities of the effects of existing pollution; it does not include prevention or control activities or remediation required upon the retirement of an asset. In general, the new rules will cause district-wide financial statements to recognize a liability on the current value of expected costs as estimated using the expected cash flows method. This statement is effective for the year ending June 30, 2009.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and State law for the General and Special Revenue Funds. All annual appropriations lapse at fiscal year end.

The appropriation level adopted by the Board is the level of control authorized under the Act. The Act requires expenditures to be budgeted on a functional basis. State law requires the Academy to

have its budget in place by July 1. An Academy is not considered in violation of the Act if reasonable procedures are in use by the Academy to detect violations.

The Principal is authorized to transfer budgeted amounts between functions within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the Board of Education.

Budgeted amounts are as originally adopted, or as amended by the Board of Education throughout the year. Individual amendments were not material in relation to the original appropriations which were amended.

Appropriations lapse at year-end and, therefore, cancel all encumbrances. These appropriations are reestablished at the beginning of the following year.

Excess of Expenditures over Appropriations

During the year, the Academy incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated, as follows:

Function	Final Budget	Amount of Expenditures	Budget Variance
General Fund			
Pupil	\$ 12,000	\$ 13,233	\$ 1,233
School administration	123,400	129,985	6,585
Capital outlay	36,181	70,374	34,193

Net Assets Deficit

The Academy is currently operating under deficit net assets. The deficit has been financed by a note payable from Education and Training Connection, Inc. (ETC), a related party, as discussed in Note 9. The deficit is a result of timing of State aid and

Academic and Career Education Academy

Notes to Financial Statements

June 30, 2008

intergovernmental grants payments and it is the intention of the Academy to repay ETC when payments are received for the grants.

NOTE 3- DEPOSITS

The Academy's deposits were reported in the basic financial statements in the following categories:

	Governmental Activities	Fiduciary Funds	Total Primary Government
Cash	\$ 9,718	\$ 7,018	\$ 16,736

The breakdown between deposits and investments for the Academy is as follows:

Deposits (checking, savings accounts)	\$ 16,736
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Interest rate risk – The Academy does not have a formal investment policy to manage its exposure to fair value losses arising from changes in interest rates.

Credit risk – State statutes authorize the Academy to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have an office in Michigan; the Academy is allowed to invest in U.S. Treasury or Agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles.

Concentration of credit risk – The Academy has no policy that would limit the amount that may be invested with any one issuer.

Custodial credit risk – deposits – In the case of deposits, this is the risk that in the event of a bank failure, the Academy's deposits may not be

returned to it. The Academy does not have a deposit policy for custodial credit risk. As of June 30, 2008, the Academy's bank balance of \$20,190 was not exposed to custodial credit risk.

NOTE 4- INTERFUND TRANSFERS

	Transfers Out General Fund
Transfers in Food Service Fund	\$ 1,000

These transfers were made to cover the costs of Academy's program that were in excess of revenues generated from those activities.

NOTE 5- OPERATING LEASES

The Academy leases its facilities and operating equipment from Education and Training Connection, Inc. (ETC), a related party, as discussed in Note 9. Rental expenses for the year ended June 30, 2008 amounted to \$172,963.

Future minimum lease payments under the non-cancelable lease are as follows for the year ending June 30:

2009	\$ 169,581
2010	169,581
2011	169,581
Total	\$ 508,743

Academic and Career Education Academy

Notes to Financial Statements

June 30, 2008

NOTE 6 - LONG-TERM DEBT

On December 12, 2006, the Academy obtained a note payable from ETC, a related party. The Academy can draw up to \$200,000 at an interest rate of 6% to help with the start-up of the operations. The note is due on June 30, 2008. The note was not paid off on June 30, 2008 and new agreement has not been signed as of the opinion date.

The note payable activity is summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year
Note Payable	\$ 60,000	\$ -	\$ -	\$ 60,000	\$ 60,000

Future principal and interest requirements for the note payable to be paid out of the general fund are as follows:

Year Ended June 30,	Principal	Interest	Total
2009	\$ 60,000	\$ 3,600	\$ 63,600

NOTE 7 - RISK MANAGEMENT

The Academy is exposed to various risks of loss related to property loss, torts, errors and omissions. The Academy has purchased commercial insurance for general liability and property. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage.

NOTE 8 - CONTINGENCIES AND COMMITMENTS

Grant Programs

The Academy has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowance under

terms of the grants, management believes that any required reimbursements would not be material.

NOTE 9 - RELATED PARTY TRANSACTIONS

The Academy has executed an Educational Service Provider Agreement (ESP) with ETC, a tax exempt, non-profit organization to provide support services for the Academy. The two corporations have separate non-overlapping boards and officers. Under the Agreement, ETC provides all staffing, including benefits, purchases all supplies and performs management services for the Academy. Payments to ETC for these services for the year ended June 30, 2008 amounted to \$619,667. The Academy leases its facilities, as described in Note 5, from Education and Training Connection. The total payments under this agreement amounted to \$172,963 for the year ended June 30, 2008. The Academy also has a note payable to ETC, the outstanding balance on the note was \$60,000 as of June 30, 2008.

Academic and Career Education Academy
Required Supplemental Information
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2008

	Budgeted Amounts			Over (Under) Budget
	Original	Final	Actual	
Revenues				
Local sources	\$ 700	\$ -	\$ 593	\$ 593
State sources	842,498	781,624	771,152	(10,472)
Federal sources	369,737	392,332	295,080	(97,252)
Total revenues	1,212,935	1,173,956	1,066,825	(107,131)
Expenditures				
Instruction				
Basic programs	623,951	509,776	418,297	(91,479)
Supporting services				
Pupil	9,649	12,000	13,233	1,233
Instructional staff	-	59,023	29,242	(29,781)
General administration	11,290	13,720	11,801	(1,919)
School administration	93,661	123,400	129,985	6,585
Business	81,307	77,950	74,021	(3,929)
Operations and maintenance	250,526	232,470	231,927	(543)
Pupil transportation services	13,381	31,600	30,717	(883)
Central	16,948	54,445	28,156	(26,289)
Community services	13,500	13,500	13,500	-
Capital outlay	12,750	36,181	70,374	34,193
Debt service				
Interest and other expenditures	1,000	3,600	3,600	-
Total expenditures	1,127,963	1,167,665	1,054,853	(112,812)
Excess of revenues over expenditures	84,972	6,291	11,972	5,681
Other Financing Uses				
Transfers out	(3,799)	(4,000)	(1,000)	3,000
Net change in fund balance	81,173	2,291	10,972	8,681
Fund balance - beginning	8,809	8,809	8,809	-
Fund balance - ending	\$ 89,982	\$ 11,100	\$ 19,781	\$ 8,681

Academic and Career Education Academy
Other Supplemental Information
Fiduciary Funds - Agency Fund
Statement of Changes in Amounts Due to Student Groups
For the Year Ended June 30, 2008

	Due to Student Groups <u>June 30, 2007</u>	Cash Receipts <u> </u>	Cash Disbursements <u> </u>	Due to Student Groups <u>June 30, 2008</u>
School fundraiser	\$ -	\$ 9,057	\$ 7,198	\$ 1,859
Pop and vending machine fund	<u>3,099</u>	<u>3,005</u>	<u>945</u>	<u>5,159</u>
 Total	 <u>\$ 3,099</u>	 <u>\$ 12,062</u>	 <u>\$ 8,143</u>	 <u>\$ 7,018</u>

**Report on Internal Control Over Financial Reporting and
on Compliance and Other Matters Based on an Audit
of Financial Statements Performed in Accordance
with Government Auditing Standards**

To the Board of Directors
Academic and Career Education Academy
Midland, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Academic and Career Education Academy as of and for the year ended June 30, 2008, which collectively comprise the Academic and Career Education Academy's basic financial statements and have issued our report thereon dated August 19, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Academic and Career Education Academy's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Academic and Career Education Academy's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Academic and Career Education Academy's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in the internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Academic and Career Education Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Academic and Career Education Academy in a separate letter dated August 19, 2008.

This report is intended solely for the information and use of the management and others within the organization, Board of Directors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Yeo & Yeo, P.C.

Midland, Michigan
August 19, 2008



6018 Eastman Avenue
Midland, MI 48640
(989) 631-6060 / (800) 701-3574
Fax (989) 631-4288

August 19, 2008

To the Board of Education
Academic and Career Education Academy
Midland, Michigan

Dear Board members:

We have completed our audit of the financial statements of Academic and Career Education Academy as of and for the year ended June 30, 2008 and have issued our report dated August 19, 2008. We are required to communicate certain matters to you in accordance with auditing standards generally accepted in the United States of America that are related to internal control and the audit. The appendices to this letter set forth those communications as follows:

I Auditors' Communication of Significant Matters with Those Charged with Governance

II Management Comments

These communications are intended solely for the information and use of management, the Board of Education, others within the organization, and are not intended to be and should not be used by anyone other than those specified parties.

Yeo & Yeo, P.C.

Midland, Michigan
August 19, 2008

Appendix I
Communication to Those Charged with Governance

Responsibilities under generally accepted auditing standards

As stated in our engagement letter May 15, 2008, we are responsible for conducting our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS) established by the Auditing Standards Board of the American Institute of Certified Public Accountants. Our responsibility, as prescribed by US GAAS, is to express an opinion about whether the financial statements prepared by management, with your oversight, are fairly presented, in all material respects. Our audit does not relieve you of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter.

Significant Audit Findings

- Management is responsible for the selection and use of appropriate accounting policies. We will advise management about their appropriateness and application. The significant accounting policies are described in (Note 1) of the financial statements. We noted no transactions entered into by the organization during the year where there is lack of authoritative guidance or consensus. There are no significant transactions that were recognized in a period other than which they occurred.
- Accounting estimates are based on management's knowledge and experience about past and current events and assumptions. Some estimates are sensitive because of their significance to the financial statements and the fact that future events affecting them may differ from those expected.
- Disclosures in the financial statements are neutral, consistent and clear. Certain disclosures are more sensitive than others due to their relevance to the users of the financial statements.

Difficulties Encountered During the Audit

We were unable to start the audit as originally scheduled. Additional time was required by the accounting personnel to finalize the year end records when we arrived for the audit.

Corrected and Uncorrected Misstatements

Professional standards require that the auditor accumulate all known and likely misstatements identified during the audit, other than those the auditor believes to be trivial. The adjustments identified during the audit have been communicated to management and management has posted all adjustments.

Attachment A

Disagreements with Management

A disagreement with management is defined as a financial accounting, reporting or auditing matter, whether or not resolved to our satisfaction, which could be significant, individually or in the aggregate, to the financial statements or the auditors' report. We had no disagreements with management during the audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated as of the date of the audit report.

Management's Consultations with Other Accountants

From time to time, management may decide to consult with other accountants about audit and accounting matters. Should this occur, professional standards require the consulting accountant to communicate with us to determine that they have all the relevant facts. To our knowledge, there were no consultations with other accountants during the year.

Significant Issues Discussed or Subject to Correspondence with Management

From time to time auditors discuss significant issues with management such as business conditions affecting the entity, business plans and strategies that may affect the risk of material misstatement and the application of accounting principles and auditing standards. The issues discussed during the audit occurred during the normal course of our professional relationship and our responses were not a condition to our retention.

Other Reports

Other information that is required to be reported to you is included in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards. Please read all information included in that report to ensure you are aware of relevant information.

Appendix II Management Comments

In planning and performing our audit of the financial statements of Academic and Career Education Academy as of and for the year ended June 30, 2008, we considered Academic and Career Education Academy's internal control over financial reporting (internal control) as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls, improving operating efficiency and reducing expenses. This letter does not affect our report dated August 19, 2008, on the financial statements of Academic and Career Education Academy. Our comments and recommendations regarding those matters are:

PASSWORD FOR PEACHTREE

The Academy's software is currently not password protected.

Recommendation

We recommend that user names and passwords be assigned to all users of the program. This will help prevent unwanted use and provide a record of who records each transaction. In addition user access may be limited to specific areas and what types of entries may be made in order to provide additional control over information on the system.

REVIEW OF BANK STATEMENTS

Currently the C.A.O (Chief Academic Officer) receives directly and reviews monthly bank statements, but there is no formal evidence that the review was completed.

Recommendation

We recommend the C.A.O. initial and date the monthly bank statement as evidence that the review was completed.

ADJUSTING JOURNAL ENTRIES

We proposed five adjusting journal entries that you approved and posted to your general ledger. Substantially all of these entries were to correct misclassifications and to make adjustments that should have been made prior to our arrival for the audit. We believe that a review of year end closing procedures would expedite the audit time and fees.

Reference	Type	Date Account Number	Description	Debit	Credit
AJE1	Adjusting	06/30/08			
		11-1140-1410-00	STATE AID RECEIVABLE	764.00	
		11-2311-0010-10	STATE AID MEMBERSHIP		224.00
		11-3252-3162-10	PS-MCESA FEE	7.00	
		11-2312-0020-30	STATE AID (AR)	38.00	
		11-3252-3163-30	PS-MCESA FEE (AR)		1.00
		11-1101-1010-00	GF - Cash CHEMICAL Bank		584.00
		25-1131-1313-00	F/S STATE REV		584.00
		25-1101-1010-00	F/S - CASH	584.00	
		To adjust state aid revenues			
AJE2	Adjusting	06/30/08			
		11-3252-3161-10	C/S BUSINESS PAYROLL	14,777.00	
		11-3252-3162-10	PS-MCESA FEE		14,777.00
		To correct MCESA state aid fee			
AJE3	Adjusting	06/30/08			
		11-3625-8110-10	TRANSFER TO F/S	1,000.00	
		11-1101-1010-00	GF - Cash CHEMICAL Bank		1,000.00
		25-1131-1315-00	F/S GEN FUND SUPPORT		1,000.00
		25-1101-1010-00	F/S - CASH	1,000.00	
		To record food service subsidy			
AJE4	Adjusting	06/30/08			
		11-2199-0900-10	MISC REVENUE	47,630.00	
		11-2414-0141-61	TITLE IA (C/O)		8,120.00
		11-2414-0211-71	TITLE IIA (C/O)		5,333.00
		11-2419-0191-91	CHARTER SCH (PI-C/O)		34,177.00
		To reclass federal grant c/o revenue			
AJE5	Adjusting	06/30/08			
		11-3259-7210-10	INTEREST EXP	3,600.00	
		11-1401-4011-00	A/P ETC		3,600.00
		record accrued interest on note payable			
Client1	Adjusting	06/30/08			
		11-1140-1420-00	FEDERAL GRA NTS REC	4,000.00	
		11-2414-0000-00	Service Provider Self Review		4,000.00
		To record federal grant receivable			
				_____	_____

Prepared by_____

Academic and Career Education Academy
Adjusting Journal Entries

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Page 2

Reviewed by_____

Reference	Type	Date Account Number	Description	Debit	Credit
		TOTAL		<u>73,400.00</u>	<u>73,400.00</u>